

**AGENDA ITEM 6
AUDIT RESOLUTION STATUS
FINANCIAL STATEMENT AUDIT MANAGEMENT LETTER COMMENTS
AS OF DECEMBER 31, 2007**

Auditor Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Management's Response
Macias, Gini & O'Connell Report to Management for the Year Ended 06/30/07 (12/14/07)	Investment Office	<p>1. Real estate investment values are derived from independent appraisals when called for by Policy and real estate partnership financial statements. Based on our testing of real estate appraisals, internal controls are not sufficient to ensure that appraised values of real estate investments covered by the CalPERS Investment Policy for Equity Real Estate Appraisal and Valuation are properly recorded by the related partnership. CalPERS established a Performance Monitoring Unit (PMU) in the Investment Office's Administrative Services and Operations Unit. The PMU's responsibility includes selecting appropriate appraisers and finalizing the valuations with the related partnerships, but does not include verifying that appraised values are properly incorporated in the partnership financial records.</p> <p>We recommend that management implement procedures to ensure that appraised values are properly recorded by the related partnership which should include correlation of appraised property to the partnership financial statements.</p>	CONCUR. Management agrees with the recommendation to implement procedures to ensure that those real estate assets that are appraised subject to Policy, are properly recorded by the related partnership.
	Fiscal Services	<p>2. We noted that real estate investment records utilized by the Performance Monitoring Unit (PMU) do not directly correlate with data maintained by Fiscal Services Division's Real Estate Investment Accounting Unit, which increases the risk of errors in the financial reporting process.</p> <p>We recommend that Fiscal Services Division reconcile quarterly its records in the General Ledger accounts with the records maintained by the PMU of the Investment Office.</p>	CONCUR. Fiscal Services concurs with the recommendation. The Real Estate Investment Accounting Unit has modified the General Ledger Posting Templates used to post partnership financial activity. The General Ledger Posting Templates will include a quarterly reconciliation which will then be compared with the PMU data. Differences, if any, will be investigated and the appropriate adjustments to the General Ledger or PMU reports will be made.

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Macias, Gini & O'Connell Report to Management for the Year Ended 06/30/07 (12/14/07) (continued)	Health Benefits Branch	<p>8. Blue Cross is the third-party administrator of the self-funded PERSCare and PERSChoice health plans. Blue Cross reconciles, on a monthly basis, premiums received from the State of California, along with the related enrollment records. During our testing of the PERSCare and PERSChoice premiums for the State's active and retired members, we noted the monthly premium reconciliations were not completed in a timely manner and discrepancies were not properly investigated and resolved. The May premium reconciliation was completed in October and the June reconciliation had not been completed as of the end of October. The Blue Cross premium reconciliations identified the following unresolved discrepancies:</p> <ul style="list-style-type: none"> ▪ Members were covered under one of the plans, but were not included in participant records provided by the State; therefore, premiums were not paid. ▪ Members were covered and premiums were paid, but members were not included in participant records provided by the State. ▪ Blue Cross records indicate members are covered, but CalPERS records do not indicate coverage and members were not included in participant records. ▪ Payments made by the State differ from the established premiums for selected coverage. <p>We recommend management establish procedures to ensure Blue Cross enrollment records are reconciled to CalPERS and State data in a timely manner. In addition, we strongly recommend that discrepancies are investigated and resolved prior to the next billing cycle or within a reasonable timeframe.</p>	CONCUR. Health Benefits Branch concurs with the recommendation. The Office of Health Plan Administration (OHPA) and the Office of Employer and Member Health Services (EMHS) will develop processes to ensure that reconciliation reports will be completed timely. OHPA will work with EMHS and the Third Party Administrator (Blue Cross) to investigate and resolve discrepancies in a timely manner

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Macias, Gini & O'Connell Report to Management for the Year Ended 06/30/07 (12/14/07) (continued)	Member Services	<p>9. In selecting our sample for testing Legislators' Retirement System (LRS) benefit payments, we noted nine instances in which retiree files did not contain the required documentation. Five member files did not contain the appropriate retirement application, and four files did not contain required proof of age or other documentation. In testing internal controls over the Judges' Retirement System (JRS) benefit payment process, we noted four instances in a sample of 40 of retiree files in which retirement applications could not be located and one instance in which the application was incomplete. Retirement applications include the benefit options selected by retirees as well as other key information used in the calculation of benefits. Without complete retiree files, we were unable to determine whether benefit calculations were correct.</p> <p>In addition, we noted retiree documents for both the LRS and JRS are not imaged in the Document Management System (DMS) in a timely manner, which increases the risk that documents will be misplaced.</p> <p>We recommend the responsible department create a checklist specifying the forms and documents required for processing retirement applications. To ensure the completeness and accuracy of retiree files, staff processing retirement applications should initial each item on the checklist once the documentation has been verified and placed in the file. Supervisory personnel should independently review all retiree files to ensure documentation is complete and the checklist is signed off. In addition, retiree documents should be imaged in DMS in a timely manner, and there should be a centralized filing system for documents which have not been imaged in DMS.</p>	<p>CONCUR. We concur that some documentation is missing but this is primarily in connection with the older LRS files. We are updating our current policies and procedures to require that all LRS retirement files contain an LRS checklist and a new LRS calculation review form. This will ensure that receipt of all required documentation has occurred and will enable us to validate that proper payment has been made to the member and/or beneficiary.</p> <p>We have revised our policies to require that all judges complete a retirement application form. Staff who process judges' retirement benefits have been notified that all judges must complete the appropriate approved retirement application form for either JRS or JRS II when applying for retirement. If a judge submits a letter in lieu of a retirement application, staff will send a retirement application form to the judge and will not complete the retirement process until the retirement application has been received. In addition, we are making the retirement application available to the judges on our CalPERS website.</p> <p>Regarding pre-process imaging, since JLVO does not have an automated workflow system, pre-process imaging would not be practical or efficient. As a result, all incoming documents are imaged to DMS on a post-processing basis. It is our understanding that this issue will be resolved with the Pension Resumption System (PSR) project as all core processes, including retirement benefit and</p>

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	Member Services	<p>10. In testing internal controls over the LRS benefit payment process, we observed that LRS pension benefits are manually calculated and input into the Legislators' Monthly Roll System (LEG) subsidiary system by CalPERS staff. Such manual processes are inherently inefficient and prone to error.</p> <p>We recommend that management consider automating the benefit calculation process.</p>	<p>CONCUR. We agree with this finding and will be automating the benefit calculation process in the Pension System Resumption (PSR) project, and the LEG subsidiary system will be replaced. In the interim, we have developed a calculation review form that will contain all the information used in the calculation of the retirement benefit. Staff preparing the calculation and performing the peer review will initial the document.</p>

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	Information Security Office	<p>14.1 CalPERS policies state that all newly-hired employees will review the CalPERS Information Security Policies and Practices and sign an Information Systems Security and Confidentiality Acknowledgement (ISSCA) form. In addition, all current employees will review and re-sign the form yearly. The form states, among other items, that the employee agrees to abide by CalPERS information systems requirements including the understanding that:</p> <ul style="list-style-type: none"> ▪ CalPERS information assets and computer resources only for CalPERS approved purposes. ▪ Employees are to access CalPERS systems and networks using only my assigned user identifiers and passwords. ▪ Employees are to notify the CalPERS Information Security Officer immediately of any actual or attempted security violations including unauthorized access; and, theft, destruction, or misuse of systems equipment, software, or data. 	<p>CONCUR. Management concurs with this recommendation. CalPERS Information Security Office has implemented an annual mandatory Web-Based Training program that replaces the Information Systems Security and Confidentiality Acknowledgement (ISSCA) process. This program ensures that all staff, including civil service employees, retired annuitants and student assistants, have been informed, through the Web-Based Training, of the CalPERS information security policies and practices, and captures their acknowledgement of and agreement to abide by, the same.</p> <p>The Web-Based Training process creates a file consisting of the identity and date of everybody who has taken the training. This file is used as a compliance monitoring tool, in lieu of reviewing individual employees' personnel files looking for the most recent ISSCA forms.</p>

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Macias, Gini & O'Connell Report to Management for the Year Ended 06/30/07 (12/14/07) (continued)	Information Security Office (continued)	<p>14.1 (continued) While CalPERS policy is that all new-hires complete and sign the ISACCA form and current employees re-sign the form yearly, we found that evidence of the signed forms are not always maintained. Our testing of 18 new-hire forms found that 17 percent could not be found. In addition, we tested six current ITSB employees and were only able to find four completed forms.</p> <p>The lack of available signed forms could indicate that either the employee did not complete the review and subsequently sign the form, or that the form had been misplaced. In either case, the evidence of completion of the form is not available putting the agency at increased risk for non-compliance to the information security policies and practices.</p> <p>CalPERS ISO (Information Security Office) should institute new procedures to ensure that training is provided and new-hires sign the ISSACA form. Periodic internal reviews should be accomplished to ensure this is being done. In addition, procedures should be implemented to ensure that recurring training is accomplished and the recurring ISSACA form is signed and submitted to the Human Resources Department.</p>	<p>The Division Chief of the Information Technology Administration Division (ITAD) has taken the following steps to mitigate issues within the Information Technology Services Branch (ITSB):</p> <p>A notice to all ITSB staff was distributed requesting an Information Systems Security and Confidentiality Acknowledgement (ISSCA) form be reviewed and signed by all employees. ITAD staff is in the process of tracking and monitoring the forms received to ensure all forms are accounted for.</p> <p>All ITAD staff that process badge requests have been made aware and instructed to follow the policy and procedures documented in the ITSB Policy and Procedures Manual which states that a signed ISSCA form must be attached to the Badge Access Card Request form for new ITSB State employees, student assistants, retired annuitants, contractors, and consultants.</p> <p>The ITAD staff is aware that each ITSB employee is required to review and sign a form annually as stated in the ISSCA Practice. ITAD staff have developed processes to ensure each employee is instructed to review and sign a form annually as stated in the ISSCA Practice. ITAD staff will also ensure the forms are received and forwarded to Human Resources.</p> <p>In addition, ITAD will share this finding and recommendation with the Information Security Office to ensure that all recommended actions to resolve this issue are implemented and coordinated as needed.</p>

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Macias, Gini & O'Connell Report to Management for the Year Ended 06/30/07 (12/14/07) (continued)	Information Technology Services Branch	<p>granting access. The CalPERS ITSB should work to ensure that the Movaris application process includes procedures for the formal data owner or the data owner designee to provide approval prior to granting access to an application or data under the responsibility of the data owner. Current user application accounts should also be reviewed by formal data owners to ensure that all accounts currently in use have the proper approvals.</p> <p>15.4. Shared accounts are being used by the database administrators when accessing the Oracle database or the VSAM file environment. The use of these shared accounts creates a situation wherein actions taken within the database system cannot be tracked back to a specific individual. Inadvertent or malicious activity may not be able to be positively associated with a specific individual essentially eliminating an effective audit trail.</p> <p>CalPERS ITSB should evaluate the use of shared accounts and discontinue their use where it has been determined there is a risk to the database. Database administrator accounts with schema owner access should be controlled with access granted sparingly and only after proper approval has been granted.</p>	<p>not include that same functionality for RIBS and CRS. We are looking into the feasibility of running a monthly report of RIBS and CRS system users for the data owners to review and approve. While this process would be 'after the fact', it is a reasonable mitigation until CalPERS implements its Enterprise Identity Access Management System.</p> <p>CONCUR. Management concurs with this recommendation. To address the shared accounts used to access VSAM files, SAS will review all 'generic' and shared accounts and will work to bring them into compliance with the Identity Authentication Practice (see Observation 1.7 of the internal (FISMA) audit).</p> <p>To address shared accounts used to access Oracle databases, a single schema owner account is required by the Oracle DBMS in order to create database objects (e.g. tables, indexes, primary keys). This single owner account owns the database objects. TSSD has an operational need to allow more than one DBA to use the schema owner account and access is granted only when necessary. To mitigate the risk, the ISOF is implementing the Guardium SQL Guard appliance. This appliance provides an audit trail and is outside the control of the DBA's. Logs created by the Guardium will be routinely evaluated by the ISOF to ensure no unauthorized activities, including database schema changes, occur. The testing and implementation of the Guardium should be completed by June 2008.</p>

**AGENDA ITEM 6
AUDIT RESOLUTION STATUS
FINANCIAL STATEMENT AUDIT MANAGEMENT LETTER COMMENTS
AS OF DECEMBER 31, 2007**

Auditor Audit Scope/ (Report Issue Date)	Responsible Division(s)	Finding Number and Description	Management's Response
Macias, Gini & O'Connell Report to Management for the Year Ended 06/30/07 (12/14/07) (continued)	Information Security Office	<p>15.5. Database administrator with accounts to the Oracle database or the VSAM environments may potentially have the capability to alter member information affecting benefits payments. Tests have not been conducted to determine if the database systems have sufficient logging triggers or oversight such as file balancing or reconciliations to verify if unauthorized changes can be detected.</p> <p>The CalPERS ISO should conduct testing to determine if persons with schema owner access to the Oracle database or to the VSAM files can make changes to the database that would affect member benefits without detection.</p>	<p>CONCUR. Management concurs with this recommendation. Controls should be in place to ensure modifications to schemas and any other changes to databases are recorded in non-repudiable log files. The ISOF has purchased Guardium SQL event logging appliance to address this issue. During testing of the Guardium appliance, the Information Security Office will verify that Guardium appliance flags unauthorized activities performed by the database administrators (e.g. changing member information in the database that affects benefit payments).</p> <p>The ISOF is also verifying VSAM logging processes and will expand its compliance program to include monitoring of event logs in VSAM environment to ensure timely identification of unauthorized database activities. Pending approval of the mid-year FBR, the compliance program will be in place by March 2008.</p>